

Message Text

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ORIGIN TRSE-00

INFO OCT-01 NEA-10 ISO-00 EB-07 L-03 H-02 CIAE-00 INR-07

NSAE-00 SS-15 NSC-05 COME-00 OMB-01 SP-02 AID-05

CIEP-01 STR-04 CEA-01 FRB-03 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 /083 R

DRAFTED BY TREASURY:CBAZARIAN/NEA/ARP:COCECIL:CEJ

APPROVED BY NEA:SSOBER

TREASURY:GLPARSKY (SUBS)

TREASURY:LWBOWDEN

TREASURY:HMCFADDEN (DFT)

TREASURY:RPATRICK (DFT)

TREASURY:JGRIFFIN (DFT)

EB/IFD/OMA:MTMINNIES (SUBS)

NEA/ARP:FMDICKMAN

L/NEA:KHUFFMAN

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P 261919Z JAN 76

FM SECSTATE WASHDC

TO AMEMBASSY JIDDA PRIORITY

C O N F I D E N T I A L STATE 019041

E.O. 11652: GDS

TAGS: EFIN, SA

SUBJECT: PROPOSAL FOR US-SAUDI ARABIA TAX TREATY

REF: JIDDA 5055

1. DURING AMB PORTER'S CONSULTATIONS, SEC SIMON RAISED
PROPOSAL OF US-SAG TAX TREATY AS A SYMBOL OF GOODWILL
AND A PRACTICAL SOLUTION FOR REMOVING IMPEDIMENTS TO TRADE
AND INVESTMENT BY EQUITABLE TAX TREATMENT. TREASURY IS
PREPARED TO SEND OUT ROBERT PATRICK, INTERNATIONAL TAX
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COUNSEL, AND SEVERAL OTHERS TO PROCEED WITH TAX TREATY

NEGOTIATIONS IF A REAL INTEREST IS EXPRESSED BY SAMA AND
MINISTRY OF FINANCE.

2. THE MOST IMPORTANT ASPECT OF A US TREATY WITH SAUDI
ARABIA IS LIKELY TO BE THE PROVISION DEALING WITH THE
TAXATION OF INVESTMENT INCOME --DIVIDENDS, INTEREST,
ROYALTIES AND CAPITAL GAINS. A TREATY MAY REDUCE OR
ELIMINATE THE TAX WITHHELD AT THE SOURCE ON INCOME PAYMENTS
OF RESIDENTS OF THE OTHER STATE. IN ADDITION, A TREATY
WILL PROVIDE FOR COMMON DEFINITIONS IN TERMS OF SOURCES
OF INCOME SO AS TO REMOVE AMBIGUITIES. (REFER TO
JIDDA 5055 ON SAMA'S CONCERN OVER IRS RULING SECTION 892.)

A TREATY ALSO PROVIDES A MEASURE OF CERTAINTY TO INVESTORS
AS TO THEIR TAX STATUS.

3. BENEFITS TO THE US OF SUCH A TREATY WOULD BE: (1)
REMOVAL OF A DETERRENT TO INVESTMENT BY SAUDI ARABIA IN
LONG-TERM SECURITIES; AND (2) INSURING OF EQUITABLE TAX
TREATMENT OF US INVESTMENT IN SAUDI ARABIA.

4. EMBASSY IS REQUESTED ON A PRIORITY BASIS TO QUERY
MFNE AND SAMA AS TO THEIR INTEREST IN DESIRING A TAX
TREATY. IF SAUDI RESPONSE IS POSITIVE AND EMBASSY
CONCURS, PATRICK COULD TRAVEL TO SAUDI ARABIA WITHIN A
VERY SHORT PERIOD OF TIME.

5. SAUDIS SHOULD BE TOLD, HOWEVER, NOT TO EXPECT
IMMEDIATE RATIFICATION, SINCE CONGRESS NORMALLY CONSIDERS
SUCH TREATIES ONLY ONCE A YEAR. SHOULD NEGOTIATIONS
BE COMPLETED IN THE SPRING, TREATY MIGHT BE RATIFIED
NEAR YEAR'S END, BEFORE ADJOURNMENT, BUT IF NOT,
RATIFICATION MIGHT BE DELAYED UNTIL SOMETIME DURING
FIRST YEAR OF THE NEW CONGRESS. KISSINGER

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